

REQUEST FOR PROPOSALS FOR PORTFOLIO

MANAGEMENT SERVICES AND THE PURCHASE OF NATURAL GAS

Boston Gas Company, Colonial Gas Company, and Essex Gas Company (collectively the "Companies") request proposals for services encompassing the management of certain of the Companies' upstream interstate gas supply, transportation, and underground storage assets, (collectively, referred to herein as "Portfolio Management"), and the provision of the city-gate gas supply requirements of the Companies' sales customers in a reliable and least-cost manner. These services are requested for the period November 1, 1999 through October 31, 2002.

The Companies are regulated natural gas distribution utilities operating in Massachusetts. Collectively, the Companies serve 735,000 utility customers in 115 Massachusetts municipalities, predominantly composed of residential accounts, a substantial portion of which are heating accounts. The Companies have an obligation to provide reliable and least-cost supply and transportation service to their sales customers. The Companies maintain portfolios of gas supply, interstate transportation, underground storage rights, and on-system peaking resources in order to provide such service in a least-cost and reliable manner. In consideration of a fixed fee paid to the Companies, the manager will be expected to meet the Companies' firm sales requirements while also being allowed, within broad guidelines set by the Companies, to utilize any excess resources within the specified portfolio to generate revenues for the manager.

A description of the resources available for Portfolio Management is contained in the attached appendices, along with load duration curves, indicating the Companies' forecast city-gate requirements for its sales customers.

A. OBJECTIVES OF PORTFOLIO MANAGEMENT

The Companies' major objectives in requesting proposals for Portfolio Management are as follows:

1. To provide reliable and least-cost gas supply and transportation service to the Companies' customers;
- 2 . To take advantage of the competitive elements of the natural gas market by optimizing the value of the Companies' supply, transportation and underground storage assets; and
3. To substantially reduce the Companies' unit cost of gas at its city-gates, through such optimization of the Companies' resource portfolios.

B. THE MASSACHUSETTS REGULATORY ENVIRONMENT

The Companies are subject to regulation by the Massachusetts Department of Telecommunications and Energy (the "DTE") as natural gas local distribution companies. On February 1, 1999, the DTE issued a decision resolving certain issues associated with the implementation of a statewide customer-choice program (Gas Unbundling, DTE 98-32-B (1999)). In that decision, the DTE directed LDCs to maintain their service obligation to customers for at least the next three years. The DTE stated that LDCs will continue to plan for and procure capacity resources to serve firm sales customers until the DTE determines that the market is sufficiently competitive to warrant a modification to the LDCs' service obligation. In that regard, the DTE stated that it will evaluate the level of competition in the upstream capacity market after three years.

The Companies currently offer all commercial and industrial customers the option of purchasing their natural gas supplies through third-party marketers and have indicated they will soon implement a transportation program for residential customers. To facilitate the implementation of a statewide customer-choice program, the DTE approved the mandatory assignment of upstream capacity resources on a "slice-of-the-system" basis for sales customers who migrate to transportation-only service. The Companies will mandatory assign such customers their *pro rata* share of pipeline and underground storage resources and certain gas supplies on a monthly basis throughout the term of the Portfolio Management Agreement. The winning bidder should be cognizant of the fact that the portfolio of assets subject to Portfolio Management may change each month depending on the level of migration by sales customers to transportation only service. The portfolio manager will be required to manage the portfolio in a manner that will allow the Companies' capacity assignment program to be implemented.

A copy of the DTE's decision, Gas Unbundling, DTE 98-32-B (1999), is available upon request.

C. DESCRIPTION OF THE PORTFOLIO

The Companies have capacity and underground storage entitlements on multiple upstream pipelines that provide access to production fields and provide operational flexibility and the ability to move gas supplies along various transportation paths. Ultimately, all upstream supplies are delivered to the Companies' city-gates via Tennessee Gas Pipeline ("Tennessee") or Algonquin Gas Transmission Company ("Algonquin"). The Companies also have the ability to meet peak shaving requirements through contractual arrangements with Distrigas of Massachusetts Corporation, Duke Energy Trading and Marketing LLC, and Algonquin LNG, Inc. and through the use of on-system LNG and propane air assets. The management of peak shaving resources is not part of this RFP.

In addition to capacity entitlements, the Companies also have certain long-term gas supply commitments. These supply contracts are primarily associated with its access to Canadian production fields and will be assigned to the winning bidder on a must take basis as part of the overall portfolio of assets to be managed.

A more detailed description of the Companies' portfolios and capacity entitlements is contained in the attached appendices.

D. SERVICES REQUIRED

The Companies will require the qualified manager to perform the following services:

1. Arranging Purchase and Delivery of Gas to Meet the Companies' Sales Requirements

The manager must nominate, schedule and confirm deliveries on upstream contracts and make purchases of supplies to meet the requirements of the Companies' sales customers. The manager will be responsible for day-to-day administration of the Companies' supply contracts, underground storage, and transportation contracts. Within broad guidelines set by the Companies, the manager will be given the ability to determine the package or packages of supply that will minimize costs. It will be the responsibility of the manager to ensure that all contract terms and tariff provisions for all assigned resources are adhered to.

The Companies and the manager will be expected to work together on a daily basis to ensure that nominations (including any necessary adjustments thereto) are made on a timely basis on all applicable pipelines and that nominations reflect the Companies' specified requirements.

2. Balancing

The Companies will retain any and all rights associated with the operational balancing agreements (OBA's) held by or for the Companies on Tennessee and Algonquin. The manager must arrange deliveries and receipts to avoid imbalance penalties, and related charges. The manager must monitor the deliveries and performance of all upstream contracts for compliance with all pipeline directives and tariff provisions such as Operational Flow Orders, Action Alerts and Action Warnings.

3. Underground Storage Transportation Capacity Management

The manager will ensure that all contract and tariff provisions and other compliance requirements of pipelines or storage vendors are met and penalties are minimized. Prior to April 1 of each year, the manager will work with the Companies to prepare and implement a storage refill strategy for the following winter heating season. At this time, the pricing structure for storage refill will be determined.

The Companies plan for storage inventory to be 95% full on November 1, 1999. Two of the Companies' National Fuel storage contracts terminate as of March 31, 2000. The manager must work with the Companies to meet the conditions of such contract termination.

At the end of the agreement, the Companies expect underground storage to be 95% full unless otherwise agreed upon in writing prior to March 15, 2002.

4. Accounting and Billing

The manager will verify all invoices and billings of suppliers, transporters, and storage operators. The specific accounting procedures and the responsibility for billing and paying such invoices shall be agreed to by the parties in the final negotiations. Monthly estimates of all gas cost activity and related volumes will be provided to the Companies within three (3) business days after the month in which the activity occurred. All pipeline refunds and credits applicable to any period covered by the final agreement between the Companies and the manager shall belong to the Companies. The manager will be responsible for maintaining all records required to comply with standard auditing practices as well as all records reasonably requested by the Companies that are necessary to support the Companies' reporting requirements.

E. TERM

Any contract for the services contemplated by this RFP will commence on November 1, 1999 and end October 31, 2002.

F. PERFORMANCE STANDARDS REQUIRED OF THE MANAGER(S)

1. Preparation of Required Reports

All required reports must be prepared to the satisfaction of the Companies.

2. No Interruptions or Curtailments of Firm Service

Service interruptions not excused by a force majeure event will be grounds for immediate termination and the imposition of contractually provided for penalties.

3. Audits

The Companies reserve the right, at any time, to audit the books and records of the manager. Such audit will be conducted by an outside auditor selected by the Companies and be restricted to the manager's compliance with and performance under this contract.

G. COMPENSATION

1. Fixed Fee

Respondents should propose payment of a fixed monthly fee to the Companies for the right to manage the Companies' transportation, underground storage and supply contracts identified in the attached appendices in a manner consistent with this RFP.

2. Commodity Pricing

Gas Supplies delivered by the winning bidder to meet the Companies' sales requirements and storage refill requirements will be paid for by the Companies in accordance with the pricing hierarchy shown in Article III of the sample contract attached hereto as Appendix A. Respondents should be aware that the Companies' MDQ will change each month for the term of the contract to reflect capacity assignments made in accordance with the Companies' unbundling program.

Also, consistent with the Companies' unbundling program, volumes applicable to the Canadian, Enron and storage indices will be adjusted monthly.

H. OTHER CONSIDERATIONS

All arrangements entered into on the Companies' behalf must be such that the Companies can immediately take over the functions of the manager in the event that the manager is terminated with cause. The manager shall cooperate fully with the Companies to effectuate any necessary transition after such termination.

I. CONTENTS OF THE PROPOSAL

The Companies contemplate finalizing an agreement in a form substantially similar to the sample contract, attached hereto as Exhibit A, with a qualified firm

having demonstrated experience in cost-effective Portfolio Management. The Companies intend to evaluate all initial proposals for the purpose of creating a "short list" of no more than three (3) bidders with whom the Companies will enter into negotiations for a final agreement.

1. Proposal Contents

Each bidder must submit the following information:

- (i) a narrative description of its ability to ensure reliable and uninterrupted gas supply deliveries to the Companies' city-gate to meet the Companies' obligation to serve its sales customers;
- (ii) the compensation amount the bidder is willing to pay the Companies for access to and the right to manage the specified portfolio resources in a manner consistent with this RFP;
- (iii) three (3) years of financial statements and/or a current shareholders' Annual Report and 10K or equivalent;
- (iv) verifiable information on their experience in the field of Portfolio Management, including length of time engaged in the industry, volume of business, geographical areas served, list of clients served and status of relationships;
- (v) qualifications of key personnel who would be expected to work on the Companies matters;
- (vi) policies for handling and avoiding conflicts of interest;
- i. a statement indicating that the respondent is willing to enter into an agreement on terms and conditions substantially similar to the sample contract attached as Appendix A;
- ii. an "Executive Summary" of the proposal

2. Clarification of RFP

Potential respondents should review this RFP carefully to raise any questions as early as possible. The Companies will attempt to answer all

questions received in writing before Thursday, July 22, 1999 at 12:00 EST at a pre-bid conference to be held:

Date: Wednesday, July 28, 1999

Time: 9:00 a.m.

Place: The Omni Parker House

Rooftop Ballroom

60 School Street

Boston, Massachusetts

The Companies reserve the right to distribute its responses to all the parties who have received a copy of this RFP.

Address questions in writing to: Steve McCormick

Fax: (617) 367-6463

Email sgm@bostongas.com

3. Proposal Submissions

Six copies of the responses to the RFP must be enclosed in a sealed envelope, and sent to:

BOSTON GAS COMPANY

Attention: Elizabeth C. Danehy

Director of Gas Acquisition & Transportation Services

1 Beacon Street

Boston, Massachusetts 02108

All proposals must be received by 5:00 PM Eastern Standard Time, August 12, 1999. The Companies reserve the right to reject any proposal that is not complete in all material respects.

J. CONFIDENTIALITY

A respondent may request that specific information contained in or relative to its proposal be treated by the Companies on a confidential basis. Such a request shall be clearly stated on every page of the proposal on which confidential information may appear. The Companies and their representatives shall take reasonable best effort steps to protect information that is clearly identified as confidential from disclosure to third parties. Bidders should understand that the Companies may deem it necessary to disclose non-proprietary information regarding the RFP.

Upon request by a respondent, the Companies shall request, in connection with any submission to the DTE or other authority having jurisdictional or oversight responsibilities for the Companies' procurement activities, that information designated as confidential by the respondent be treated as confidential and proprietary in accordance with the provisions of Massachusetts General Laws, Chapter 25, § 5D, and protected from disclosure to third parties.

In no event shall the Companies be liable for damage resulting from any inadvertent disclosure of confidential information during the period of review and analysis of proposals or during subsequent contract negotiations.

In the event that a potential respondent requires information from the Companies that the Companies deem confidential, the Companies may provide such information but the potential respondent shall first execute a confidentiality agreement in a form to be provided by the Companies.

K. PRELIMINARY ANALYSIS AND CONTRACT NEGOTIATIONS

The Companies reserve the right to accept or reject any and/or all proposals, enter into negotiations with selected respondents, and to award the contract to bidder other than the high bidder and in such a manner as will in its sole opinion best meet the objectives described in this RFP. The Companies may elect to delay all or part of the award schedule and to request rebids if necessary.

Proposals will be evaluated on both price and non-price factors including the extent to which qualified suppliers can demonstrate the capability to perform services required, meet performance standards, and achieve the objectives of the Companies with particular emphasis on the following:

1. the availability to the bidder of reliable supplies necessary to meet the Companies' sales requirements;
2. the financial strength of the bidder;

3. demonstrated experience in portfolio management and achievement of savings and other client goals similar to those identified in this RFP; and

4. the maximum cost reduction to the Companies and their customers as reflected by the fixed fee payment amount proposed to be paid by the respondent to the Companies.

The Companies will complete a preliminary analysis of all properly submitted proposals by August 27, 1999. Following the completion of the preliminary analysis, the Companies will notify each respondent in writing with regard to the selection of a particular proposal for final negotiations.

The Companies intend to actively pursue negotiations with "short list" candidates so that services may begin by November 1, 1999.

L. FIRM COMMITMENT

The Companies shall not be considered to have made a commitment to purchase services or anything else from any respondent either through the issuance of this RFP, or through the initial selection of any proposal for final contract negotiations. The Companies reserve the right, in their sole discretion, to discontinue negotiations with any or all potential managers prior to execution of an agreement. The Companies also reserve the right to purchase services at any time from any source outside of the context of this RFP.

M. REGULATORY APPROVAL

Commencement of any services requested by this RFP are subject to the prior approval of the DTE. The Companies intend to file the final agreement negotiated with the winning bidder with the DTE on or before September 15, 1999. In the event DTE approval is not obtained on or before October 15, 1999 in a form acceptable to the Companies, any contract entered into between the Companies and the winning bidder will be null and void and the services requested by this RFP shall not commence.

BOSTON GAS COMPANY

By: _____

Signature

William R. Luthern

Print Name

Vice President of Gas Resources

Title

ESSEX GAS COMPANY

By: _____

Signature

William R. Luthern

Print Name

Vice President of Gas Resources

Title

COLONIAL GAS COMPANY

By: _____

Signature

John P. Harrington

Print Name

Sr. Vice President of Gas Supply &

Assistant to the President

Title